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### Self-employment in the Netherlands

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## **European Employment Observatory**

### **EEO Review: Self-employment, 2010**

#### **The Netherlands**

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## **1. Introduction**

The number of self-employed in the Netherlands has grown significantly in the past decade, however, the actual number highly depends on the definition of 'self-employment'. Statistics Netherlands (CBS) reports an increase from nearly 400 000 Zelfstandigen zonder personeel; ZZP-ers (self-employed without personnel)<sup>1</sup> in 1996 to more than 630 000 self-employed in 2009, which is 8.6 % of the workforce (Kösters and Dekker, 2010). In the same period the number of entrepreneurs with personnel lingered around 300 000 (Kösters, 2009). At the start of the economic crisis the number of self-employed grew, however, in the past year their number decreased (CBS, 2010).

The group of self-employed is very diverse, ranging from high-skilled professionals with a high income to the self-employed who combine a few hours of entrepreneurship with a (part-time) job. Depending on the group of self-employed referred to, the attitude towards self-employment differs. Mostly, the self-employed are regarded as entrepreneurs who have deliberately chosen this type of employment both for the remunerations and the risks the market offers. The typical self-employed person in the Netherlands is a somewhat older, high skilled man (de Vries et al., 2010). Therefore, the government seems reluctant to create facilities for the self-employed other than the already existing (general) schemes (see section 2). However, there is some debate concerning the position of the self-employed. A first debate concerns involuntary self-employment, especially in cases of false self-employment (see section 3) - the general attitude is that involuntary and false self-employment should be prevented. A second debate concerns the social security entitlements of the self-employed and their position within the field of industrial relations.

## **2. Assessment of national Labour Market policies and recovery measures**

The Dutch Government supports a good business climate. Therefore, a range of measures to support self-employment have existed for a number of years.

First, there are a number of arrangements that support self-employment as an alternative to unemployment or inactivity. People receiving unemployment benefits (WW) may be offered the possibility of becoming self-employed. Their business plans are examined by a so-called Werkbedrijf ('work-coach') of the Dutch Public Employment Service (UWV) and unemployment benefits can be received in advance as a start-up business loan, with a maximum of 26 weeks. After two years, the UWV Werkbedrijf will calculate the amount of money that should be paid back (depending on the business profits). The unemployed can also choose to receive lower unemployment benefits instead of a start-up business loan. The unemployed person then stops receiving benefits for the hours spent on his or her business. Also employees on sick leave or receiving disability benefits (WIA, WAO, WAZ, Wajong- of Ziektewet) are in some cases entitled to a start-up business loan provided by the UWV Werkbedrijf. Moreover, starting a business is stimulated for people receiving Bijstand (welfare). One can start a business on welfare benefits for a maximum of 36 weeks. In some cases this money needs to be paid back. A business loan with a maximum of EUR 32 774 can

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<sup>1</sup> A self-employed person is defined by CBS as a person who works in their own business or practice and does not employ personnel and other self-employed, such as freelancers. Calculations are based on the population aged 15-65 working more than 11 hours per week. Moreover, the self-employed activities have to be a person's main activity.

also be provided. Furthermore, the executive body (in the case of welfare, this is the municipality) can refund additional costs for coaching, courses or market surveys relating to the new business.

In 2008, 12 000 unemployed people receiving benefits started a business. Nearly 6 000 people used the abovementioned support services (Kok et al., 2009). In 2009 7 900 unemployed workers started their own business (UWV, 2010). Allegedly due to the transition of redundant workers to self-employment, the number of self-employed without personnel even grew at the start of the crisis (NRC, 2009). Compared to 2008, there were a lot more people aged over 50 who set up their own business (with or without personnel), many of which did so after they were made redundant in 2009 (Kamer van Koophandel, 2010). Van Es and van Vuuren (2010) conclude in their study that Dutch policies have stimulated the growth of self-employment in the past decade, among others the policies to stimulate the unemployed to become self-employed.

One may conclude that supporting people who want to make the transition from unemployment to self-employment can be an important tool to increase labour participation and decrease unemployment. This is especially the case when it concerns motivated people who have a less fortunate labour market position, for instance due to their age or illness. However, becoming self-employed does not automatically mean that one's business will be successful in the long-run. Some of the self-employed may end up in a vulnerable position. The large number of self-employed without personnel was for instance mentioned as one of the factors causing the relative slow unemployment growth in the Netherlands. Companies first stopped hiring the self-employed before cutting down their staff (the same happened to temporary agency workers and workers with a fixed-term contract). This makes the self-employed more likely to be exposed to sharp income reductions, whereas they are not entitled to unemployment benefits. Moreover, self-employed people who totally terminate their activities often make a transition to inactivity. Of the population of self-employed without personnel in the second quarter of 2009, about 5 % was not self-employed any longer after three months. They mostly became inactive (2.4 %) or made the transition to the status of employee (2.2 %), whereas only 0.5 percent became unemployed. The former self-employed thus often exit the labour market, which is not in line with the aim of increasing labour participation.

#### *Effects of the financial crisis and schemes to support business creation and sustainability*

The economic crisis has caused the self-employed to increase their efforts to obtain new work, which may have increased their working hours (Van den Berg et al., 2009). However, the crisis has also given them time to take part in a course or invest otherwise in training. And although the crisis has put a strain on the income of the self-employed, one third of the self-employed perceives the crisis as an opportunity, whereas 20 % sees it as a threat (de Vries et al., 2010).

The government has introduced schemes that contribute to business sustainability, also in the light of the financial crisis. Last year, the government temporarily installed a Garantie Ondernemingsfinancieringregeling (GO-arrangement) in which the government partly offers financial guarantees for companies that apply for a bank loans. In total, almost 100 companies made use of this scheme. The scheme secures the possibilities for companies to get a loan, now that banks have become more cautious due to the financial crisis. In 2009, the

government also implemented a micro-finance scheme for small entrepreneurial activities, for instance to start up a company. It offers loans of less than EUR 35 000 to entrepreneurs, combined with coaching and support. Moreover, there is a plan to remove barriers for the self-employed to compete for work. Currently it is not easy for the self-employed to participate in (public) tenders. The Dutch Minister of Economic Affairs introduced a new law on 25 June 2010 that should take away any unnecessary obstacles in this respect. Lastly, the government tried to remove an obstacle for (mainly new) self-employed, part-time self-employed and self-employed who had much less work due to the crisis. Normally, one is only entitled to tax benefits when working more than 1 225 hours per year in their business. Recently the Dutch Tax Administration changed these criteria and started counting time spent on acquisition, administration or education as working hours.

### **3. Quality of self-employment jobs**

Discussions in the Netherlands regarding the self-employed do not so much focus on their quality of work, but rather address their lack of social security entitlements and their weak representation in Dutch industrial relations (FNV ZBO, 2010; Nagelkerke et al., 2010; Posthumus and Wilthagen, 2010). This section lists the most important dimensions of quality of self-employed jobs.

Concerning lifelong learning, the self-employed do not fall within the scope of collective labour agreements of social partners on topics such as education and training. The general idea is that the self-employed should arrange education and training themselves (Posthumus and Wilthagen, 2010). Research shows that one out of four self-employed people do not engage in education or training (van den Berg et al., 2009). A significant group of the self-employed would like to participate more in training, however, does not have enough money and/or time. Costs for training and education can be accounted as business costs and are thus tax deductible.

Regarding work-life balance, starting your own business is viewed as one way to combine work and care. Particularly mothers – working both part-time and full-time -are self-employed as the flexibility enables them to work more hours (Kösters, 2009). Moreover, as of June 2008, the government reinstalled the arrangement of pregnancy and maternity leave for self-employed women. In addition, the self-employed have similar rights as employees when it comes to day-care facilities for children.

As regards health and safety, the self-employed are obliged to follow the general health and safety legislation. These rules aim at a safe working environment for both the self-employed worker and the people with which he or she subcontracts. If the self-employed person does not obey these rules he or she can be fined by the Labour Inspectorates.

Concerning working time, the self-employed work on average 42 hours per week compared to the 35 hours which regular employees work (Kösters, 2009). The difference in working hours may partly be explained by the large proportion of men that are self-employed, as men usually work longer hours than women. The long hours of the self-employed may also be explained by the extra tasks they have, such as handling their financial administration, writing tenders, investing in networking, and business development (Van den Berg et al., 2009). In a study of 34 self-employed people, the participants did not find these long hours a problem. It is 'part of

the job'. The long hours could, however, prevent them from investing in training and developing strategies for the longer term.

The main reasons for high skilled professionals to become a freelancer are the flexibility (64 %) and the autonomy (63 %) it provides (van den Born, 2009). Only 30 % became a freelancer because of the higher earnings. Most of these highly skilled professionals want to remain a freelancer (62 %), whereas only 1.6 % wants to obtain a permanent contract as an employee. In particular, freelancers with a low turnover find unpredictable income and little social security to be a downside of freelancing. The same argument could be valid for the low-skilled self-employed, however, these were not included in the research population.

Recently, there has been a debate on the representation of the self-employed in the field of industrial relations. It is not possible to include the self-employed in collective labour agreements, as this would be in conflict with competition law. Nevertheless, trade unions are looking for ways to make collective agreements for the self-employed, for instance regarding pension rights and disability benefits. There are also special trade unions for the self-employed. In the construction sector, for instance, a growing number of workers do not fall within the scope of collective agreements, either because they are temporary agency workers, or because they are self-employed. The trade union wants to broaden the group of workers that fall within the scope of collective labour agreements to prevent a large difference in labour costs between the various groups of workers. In March 2010, the self-employed gained a seat in the Dutch Social and Economic Council (SER), an advisory body to the Dutch government and the parliament on national and international social and economic policy.

#### *Labour law and social security*

Concerning labour law, the self-employed in the Netherlands do not have the same protection as employees. However, in individual cases labour law might apply to the self-employed. The term self-employed does not exist within the Dutch law and the self-employed often find themselves in the grey area between the status of employee and business. Thus, whereas in general there is no dismissal protection for self-employed, there is an exception when the self-employed person has only one or two clients. In that case, the client is required to seek permission from the specific government body to dismiss the self-employed. There is no evidence of the possible adjustment of this rule or the commencement of additional regulations in the field of employment protection for the self-employed (Posthumus and Wilthagen, 2010).

Social security is also primarily for employees. Most of the self-employed are not entitled to benefits when they are short of work, ill, or disabled. An exception applies to a self-employed person who has less than three clients. In certain circumstances this worker is insured against these risks and a final decision can be requested in court. However, in most cases the self-employed person will be responsible for his or her own insurance against disability. Moreover, the self-employed are entitled to receive the state pension (AOW). Currently, there is a debate on the eligibility age, which could possibly be adjusted upwards from 65 to 66 or 67. It is still unclear how this will affect the self-employed. Besides this state pension the self-employed are free to arrange an additional pension. In case the self-employed person has no work, he or she can apply for welfare.

About 40 % of the self-employed do not save for an additional pension and the crisis has led to a decrease in the amount of money saved (de Vries et al., 2010). Moreover, only half of the self-employed have disability insurance. In practice, it seems that self-employed who earn less than EUR 80 000 a year cannot afford to insure themselves for disability, or to save money for a pension (SERMagazine, 2009). Some academics, trade unions and a few political parties plead for including the self-employed in the social security system, or for having a mandatory insurance for self-employed. Including them in social security systems not only increases the security of the self-employed, it also increases the contribution of people to the social security system, making the Dutch welfare state financially more sustainable. In September 2009, the Dutch Government requested advice from the Social and Economic Council of the Netherlands on the current system of social security in relation to self-employed workers. This advice will be released soon.

#### *Abuses of the legal or fiscal status of the self-employed*

There is a group of self-employed workers of which it is unclear whether they are self-employed or employees, the so-called ‘false self-employment’. In theory, they are self-employed (the employer only pays a lump sum of which the worker has to pay his own insurances and other expenses), but in practice there is no difference between them and any other employee doing the same work. Recently the Associated Press (GPD) of the Netherlands dismissed a number of employees and gave them the option to return as a self-employed worker. The option of becoming self-employed with guaranteed assignments was part of the social plan accompanying the dismissals. In this case, the plans of hiring former employees as self-employed was concluded with trade unions and one of the options offered to redundant workers (another option was accepting severance pay). This way of operating is well within the Dutch labour law regulations. However, a potential risk is that the self-employed person only works for his or her former employer, making it a case of false self-employment. A judge may then rule that the self-employed worker is in fact an employee and should enjoy the protection by Dutch labour and social security law. Cases of false self-employment may also appear when foreign workers come to the Netherlands and do assignments for only one employer. There is, however, little data on the number of false self-employed in the Netherlands.

#### **4. Conclusions**

The number of self-employed has grown rapidly in the Netherlands. Usually these self-employed are regarded as entrepreneurs who operate against their own risk in the market. However, the group of self-employed is very diverse, including successful businessmen and women as well as vulnerable workers. Debates on self-employment address false self-employment as a phenomenon which should be prevented. Moreover, there are trade unions, academics and political parties that call for including the self-employed in (certain) social security schemes. This may increase the security of the self-employed and will moreover contribute to the sustainability of the Dutch welfare state. It remains to be seen which facilities are opted for, if there are going to be facilities at all. Currently, the debates highlight a number of options, such as including the self-employed in universal arrangements, giving them an opt-in choice in existing arrangements, or offering them (compulsory) insurances (Posthumus and Wiltthagen, 2010).

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